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June 16, 2006

AGENDA ITEM 4

TO: MEMBERS OF THE PERFORMANCE AND COMPENSATION COMMITTEE

- I. SUBJECT:** 2006-2007 Performance Plans for the Chief Executive Officer, Chief Actuary, Chief Investment Officer and His Direct Reporting Staff (Senior Investment Officers) (First Reading)
- II. PROGRAM:** Administration
- III. RECOMMENDATION:** Approve the First Reading of the 2006-2007 Performance Plans for the Chief Executive Officer, Chief Actuary, Chief Investment Officer and His Direct Reporting Staff (Senior Investment Officers)
- IV. ANALYSIS:**

The Board of Administration's Compensation Policies and Procedures for the Chief Executive Officer, Chief Actuary, Chief Investment Officer and Investment Management Positions include a schedule for approving performance plans for the coming fiscal year. The proposed plans are typically presented to the Performance and Compensation Committee for first reading at its June meeting. The performance measures which comprise the plans are either quantitative (performance against specified quantifiable standards) or qualitative (related to level of achievement on non-quantifiable key objectives).

The 2006-07 performance plans for the Chief Executive Officer and the Chief Actuary will be presented to the Committee at the August meeting, to allow adequate time for them to align their plans with senior managers who are currently finalizing their objectives for the coming fiscal year.

The performance plans for the newly-appointed Chief Investment Officer and for the Senior Investment Officers are attached for first reading. You will note that changes have been made in the plans of the Senior Investment Officers to increase the weight of the Total Fund performance measure. The weight for Total Fund has been increased from 10% to 25% for the four SIOs who manage asset classes, and from 35% to 45% for the SIO, Asset Allocation/Risk Management.

In addition, a qualitative performance measure related to “Leadership” has been added to all the plans. Mr. Read will be available at the Committee meeting to answer any questions you may have about the performance plans.

The policies provide for the Board’s investment consultant to review all proposed quantitative performance measures in the plans of the investment management positions prior to their presentation to the Committee. That review will take place before the second reading of the plans in August.

V. STRATEGIC PLAN:

Under Goal II of the Strategic Plan, CalPERS is committed to sustaining a high performance work culture. Under Goal IV, the organization is dedicated to effectively utilizing its resources, including a diverse, creative, motivated, high performance workforce. This can be accomplished at the highest executive levels through the establishment of methods that provide broad flexibility in the recruitment, retention and compensation of key personnel.

VI. RESULTS/COSTS:

The establishment of performance plans is critical to the management of a competitive compensation program for executives at the highest levels of the organization. This, in turn, is critical to the success of the organization. The cost of performance awards that might arise from the recommendations in this item will be funded from existing resources.

Chris O’Brien, Chief
Human Resources Division

Gloria Moore Andrews
Deputy Executive Officer – Operations

Attachments

**2006-2007 Performance Plans for the
Chief Executive Officer, Chief Actuary, Chief Investment Officer
and Senior Investment Officer Positions**

Performance plans for the 2006-2007 Fiscal Year for the Chief Investment Officer and Senior Investment Officers are presented for first reading on the following pages, in the order listed below.

<u>Position</u>	<u>Current Incumbent</u>
Chief Investment Officer	Russell Read
Senior Investment Officer, Alternative Investments	Leon Shahinian
Senior Investment Officer, Asset Allocation and Risk Management	Pat Pinkos
Senior Investment Officer, Fixed Income	Curtis Ishii
Senior Investment Officer, Global Equities	Christy Wood

The plans for the Chief Executive Officer and Chief Actuary will be presented in August.

Chief Executive Officer	Fred Buenrostro
Chief Actuary	Ron Seeling